SPEECH

# Earning influence: lessons from the history of international currencies

## Speech by Christine Lagarde, President of the ECB, at an event on Europe’s role in a fragmented world organised by Jacques Delors Centre at Hertie School in Berlin, Germany

*Berlin, 26 May 2025*

Over the past 80 years, the global economy thrived on a foundation of openness and multilateralism – underpinned by US leadership. By championing a rules-based international system and anchoring the dollar as the world’s reserve currency, the United States set the stage for trade to flourish and finance to expand.

This global order proved immensely beneficial to the European Union, whose founding liberal principles aligned seamlessly with it. But today it is fracturing.

Multilateral cooperation is being replaced by zero-sum thinking and bilateral power plays. Openness is giving way to protectionism. There is even uncertainty about the cornerstone of the system: the dominant role of the US dollar.

All else equal, this fracturing can pose risks for Europe. Our economy is deeply integrated into the global trading system, with exports accounting for close to one-fifth of our value added and supporting 30 million jobs.

Any change in the international order that leads to lower world trade or fragmentation into economic blocs will be detrimental to our economy.

But – with the right policy responses – there could also be opportunities. The changing landscape could open the door for the euro to play a greater international role.

Today, the euro is the second global currency, accounting for around 20% of foreign exchange reserves, compared with 58% in the case of the US dollar. Increasing the international role of the euro can have positive implications for the euro area.

It would allow EU governments and businesses to borrow at a lower cost, helping boost our internal demand at a time when external demand is becoming less certain.

It would insulate us from exchange rate fluctuations, as more trade would be denominated in euro, protecting Europe from more volatile capital flows.

It would protect Europe from sanctions or other coercive measures.

In short, it would allow Europe to better control its own destiny – giving us some of what Valéry Giscard d'Estaing called the "exorbitant privilege" 60 years ago.

So, how likely is this change to happen? History suggests that it is far from guaranteed. The euro will not gain influence by default – it will have to earn it.

For the euro to increase its global status, history tells us that we need to build on three foundations – each of them critical for success.

First, Europe must ensure it has a solid and credible geopolitical foundation by maintaining a steadfast commitment to open trade and underpinning it with security capabilities.

Second, we must reinforce our economic foundation to make Europe a top destination for global capital, enabled by deeper and more liquid capital markets.

Third, we must bolster our legal foundation by defending the rule of law – and by uniting politically so that we can resist external pressures.

Before we explore each of these three foundational components, let us observe what recent history can teach us.

## Shifts in the global currency landscape

Shifts in the global currency landscape are not unprecedented in monetary history. There have been previous episodes where the world's leading reserve currency issuer has taken steps that have called that leadership into question, without ultimately jeopardising it.

For example, the US dollar took over from the pound sterling as the world's leading reserve currency in the mid-1920s, with its share in foreign exchange reserves rising to 64% by 1931. But this leading position did not stop the United States taking measures to unilaterally change the international monetary order.

For instance, in 1933 President Roosevelt suspended gold convertibility to fight the deflationary forces of the Great Depression. He dismissed European demands for fixed exchange rates with the argument that "the sound internal economic system of a nation is a greater factor in its well-being than the price of its currency".[1]

Then again in the 1970s President Nixon ended the Bretton Woods system by unilaterally suspending dollar convertibility to gold and imposing a 10% import tariff.

Faced with growing imbalances between US current account deficits and the surpluses of western Europe and Japan, Treasury Secretary John Connally declared that "no longer can considerations of friendship, or need, or capacity justify the United States carrying so heavy a share of the common burdens."[2]

On both occasions, there was a decline in the standing of the US dollar as a foreign reserve currency. In the 1930s, it fell from over 60% to around 20% of global foreign exchange reserves. In the 1970s, it fell from about 70% to 50% two decades later.

But on neither occasion was there a robust alternative currency that could take over at short notice. In the 1930s, the pound sterling was already declining, while in the 1970s the Deutsche Mark and the Yen were backed by markets that were too small.

So, instead, investors flocked to gold. The share of gold in foreign reserves increased by about 20 percentage points in the 1930s to 97% and almost doubled to 60% in the 1970s.[3]

Today, there is a key difference compared with previous eras. With the euro as the world's second-largest currency, there is another international currency alongside the dollar. But this has not yet convinced investors.

Over recent years, the dollar's share in global foreign exchange reserves has fallen, with its current level of 58% being the lowest since 1994. In parallel, central banks have been accumulating gold at a record pace – almost matching the levels seen during the Bretton Woods era.[4] The share of gold in global foreign reserves[5] has reached around 20%, surpassing that of the euro.[6]

As previously mentioned, we can identify three essential foundations for international currency usage, without which a currency cannot succeed on the global stage. And in each case, we can see that Europe has many of the key ingredients for success, but we need to bring them together to reinforce the foundations. Action is in order.

## The geopolitical foundation

The starting point is a credible geopolitical foundation – which rests on both a country's role in global trade and the strength of its military alliances.

A currency's exposure to trade is especially important, as it provides the initial pathway to wider international use. In the mid-1920s, for example, the dollar overtook the pound sterling as the leading form of trade credit before it became the leading reserve currency.[7]

Once a currency captures a larger share of trade invoicing, its role in international banking and finance, and ultimately as a reserve asset, becomes self-reinforcing. Higher demand for the currency enhances its role as a store of value and further encourages investors to hold it.[8]

As a major actor in global trade, Europe already has a key ingredient of a strong geopolitical foundation, creating the potential for a virtuous circle of euro internationalisation to unfold.

The EU has the largest network of trade agreements in the world. Europe is the number one trading partner for 72 countries, which together represent almost 40% of world GDP.[9] And this status is reflected in the share of the euro as an invoicing currency, which stands at around 40%, more than double its share as a reserve currency.

Europe can press home this advantage by continuing to forge new trade agreements. And we should make clear that we support a win-win approach to trade, ensuring that we are the most attractive partner to make deals with.

The ECB can also help make the euro more attractive for euro-denominated trade. We are working on a potential digital euro and pursuing initiatives to enhance cross-border payments in euro, which could potentially facilitate international cross-border transactions in the future.

And by extending swap and repo lines to key partners, we safeguard against euro liquidity shortages abroad disrupting the smooth transmission of our monetary policy – which in turn encourages those partners to transact more in euro.

But there is a limit to how much a currency can grow simply by virtue of being open to trade. In fact, the euro's share of global export invoicing is already as large as that of the US dollar, but we are not closing the gap in reserve currency status.

This is because investors – and especially official investors – also seek geopolitical assurance in another form: they invest in the assets of regions that are reliable security partners and can honour alliances with hard power. So a credible geopolitical foundation must also rest on robust military partnerships.

This dual strength is essentially what we can learn from the US dollar's dominance. It is not just a product of economic fundamentals but it is also powerfully reinforced by US security guarantees. These guarantees not only deepen trade ties[10], but have been shown to boost a currency's share in foreign reserves by up to 30 percentage points.[11]

We are now seeing a major shift in Europe towards rebuilding our hard power, with important initiatives underway at the national and EU levels. And we should be clear that following through with this effort is a precondition for the euro to become more widely used.

## The economic foundation

Trade and military power are important for establishing demand for an international currency. But to satisfy this demand, investors need appropriate assets to invest in.

This is why a strong economic foundation – one that provides opportunities for growth and opportunities to invest in growth – is equally essential.

There is a virtuous circle between growth, capital markets and international currency usage. Growth generates robust rates of return, which make investors want to hold assets in a particular currency. And capital markets provide investment opportunities and channel funds back into growth.

At the same time, if capital markets provide a sufficient supply of "safe assets", investors can hedge their exposures efficiently. When a shock hits and riskier investments lose value, safer assets rise in value. That provides a complete ecosystem for investments in the currency.

The US dollar's rise to dominance in the interwar period was certainly driven by this virtuous circle. The development of US capital markets boosted growth – with each 1 percentage point increase in market capitalisation yielding 0.5 percentage points more growth[12] – while simultaneously establishing the foundation for dollar dominance. The depth and liquidity of the US Treasury market in turn provided an efficient hedge for investors.

Europe has all the elements it needs to produce a similar cycle. But so far, we have not been able to put all the pieces together.

Despite our large single market, we have fallen behind the US in terms of growth performance and market returns. Since 2000, US labour productivity per hour has grown twice as much as in the euro area, mainly driven by the tech sector, and US markets have delivered returns that are around five times as high as those of European markets.[13]

Despite our large savings, we have made little progress in integrating our capital markets to channel more of our funds into growth. 60% of household equity investment goes into home country markets even though there may be greater opportunities abroad.

And despite our strong aggregate fiscal position – our debt-to-GDP ratio is 89%, compared with 124% in the United States – we provide relatively few safe assets. Recent estimates suggest that outstanding sovereign bonds rated at least AA are just below 50% of GDP in the EU and above 100% in the US.[14]

The conclusion for Europe is clear: if we truly want to see the global status of the euro grow, we must first reform our domestic economy.

That means moving forwards with the priorities identified in recent reports: completing the Single Market, enabling start-ups, reducing regulation and building the savings and investment union. And it means avoiding a piecemeal approach, where we make progress where it is easy and dither where it is hard, else we will never kick-start the positive cycle.

Moreover, in this new geopolitical landscape, the case for acting in a European way has never been stronger.

Each individual country of course needs to make sure that its national policies support growth. But we also need to be mindful of self-defeating fragmentation. For example, we all agree that Europe needs to build up its strategic industries to avoid excessive dependencies – as Mario Draghi and Enrico Letta emphasised in their recent reports. But we will not succeed if we have 27 different policies for these industries.

Nowadays there are also more policy goals that qualify as European public goods, notably strengthening European defence. But due to the free-rider problem, defence is a good that is likely to be undersupplied. Moreover, joining forces to procure equipment and develop new technologies – leading to economies of scale and more interoperability – will result in greater operational effectiveness than if all 27 Member States go it alone.

Economic logic tells us that public goods need to be jointly financed. And this joint financing could provide the basis for Europe to gradually increase its supply of safe assets.

## The legal foundation

Geopolitical strength and faster growth can go a long way towards strengthening the euro's international role. But maintaining demand for the currency will also depend on our ability to uphold a robust legal and institutional foundation.

Ultimately, currencies achieve and maintain their reserve status if the institutions and policies backing them consistently safeguard investor confidence in their long-term value.[15]

For example, historically, the US dollar's pre-eminence has rested on the strength and stability of US fiscal and monetary institutions. The Federal Reserve System's credible commitment to controlling inflation, combined with the unparalleled liquidity of the US Treasury market, created a perception of minimal sovereign risk. This made the dollar a safe haven during global economic turbulence and recessions.[16]

Since 1970, there have been 34 instances of simultaneous sovereign debt and financial crises globally, but the US has remained immune to such "twin crises".[17]

However, when doubts emerge about the stability of the legal and institutional framework, the impact on currency use is undeniable.

These doubts have materialised in the form of highly unusual cross-asset correlations since 2 April this year, with the US dollar and US Treasuries experiencing sell-offs even as equities fell. The same doubts are also cited by investors who are turning to gold: two-fifths say they are doing so as a hedge against rising geopolitical risk.[18]

Given this context, the EU has a legitimate reason to turn its commitment to predictable policymaking and the rule of law into a comparative advantage.

This commitment is baked into how the EU works. The positive side of our often slow and complicated decision-making processes is that checks and balances are always respected. We have also enshrined into law the independence of our key institutions, like the ECB, in ways that are hard for politicians to threaten.

But relying on the fact that our bureaucratic systems are hard to change is not enough. In the current geopolitical environment, we are facing increasing external pressures to take actions that jeopardise the rule of law. And we will only be able to resist these pressures if we are more politically united and able to speak with a single voice.

As we potentially enter a renewed era of great power rivalry, with countries being asked to take sides, we are likely to find ourselves under pressure to make decisions that are not necessarily in our own interest.

But if we take this opportunity to unite and, preferably, to reform our institutional structure by enabling more qualified majority voting in areas where a single veto has often held back the collective interests of the 26 other countries, that would enable us to act decisively as a united Europe. We would then be in a much stronger position to defend and uphold our values and, as a result, to defend and uphold global confidence in our currency.

## Conclusion

Let me conclude.

In the history of the international monetary system, there are moments when the foundations that once seemed unshakeable begin to shift.

The Belgian-American economist Robert Triffin described this with great clarity. He observed that nations' confidence in the international monetary system depends on the reliability of the reserve currency, which, in his words, is "highly dependent on individual countries' decisions".

But moments of change can also be moments of opportunity. The ongoing changes create the opening for a "global euro moment".

This is a prime opportunity for Europe to take greater control of its own destiny. But this is not a privilege that will simply be given to us. We have to earn it.

1.

Roosevelt, F.D. (1933), "Wireless to the London Conference", message transmitted to the London Economic Conference, 3 July.

2.

Eichengreen, B. (2011), *Exorbitant Privilege: The Rise and Fall of the Dollar and the Future of the International Monetary System*, Oxford University Press, New York.

3.

Share for known foreign reserves in 24 countries. See Eichengreen, B. and Flandreau, M. (2009), "The rise and fall of the dollar (or when did the dollar replace sterling as the leading reserve currency?)", *European Review of Economic History*, Vol. 13, No 3, pp. 377-411; and Eichengreen, B., Chiţu, L. and Mehl, A. (2016), "Stability or Upheaval? The Currency Composition of International Reserves in the Long Run", *IMF Economic Review*, Vol. 64, No 2, pp. 354-380.

4.

Central banks purchased more than 1,000 tonnes of gold in 2024, which is double the average annual amount seen in the previous decade. Global holdings of gold by central banks now stand at 36,000 tonnes, close to the all-time high of 38,000 tonnes reached in 1965 during the Bretton Woods era.

5.

At market prices.

6.

ECB (2025), *The international role of the euro*, June, forthcoming.

7.

Mehl, A., Mlikota, M. and Van Robays, I. (2023), "How is a leading international currency replaced by another? Old versus new evidence", *The international role of the euro*, ECB, June.

8.

Gopinath, G. and Stein, J.C. (2018), "Banking, Trade, and the Making of a Dominant Currency", *NBER Working Paper Series*, No 24485, National Bureau of Economic Research, April.

9.

European Commission (2025), A Competitiveness Compass for the EU, Communication from the Commission to the European Parliament, the European Council, the Council, the European Economic and Social Committee and the Committee of the Regions, COM(2025) 30 final, Brussels, 29 January.

10.

Eichengreen, B., Mehl, A. and Chiţu, L. (2021), "Mars or Mercury redux: The geopolitics of bilateral trade agreements", *The World Economy*, Vol. 44, No 1, pp. 21-44.

11.

Eichengreen, B., Mehl, A. and Chiţu, L. (2019), "Mars or Mercury? The geopolitics of international currency choice", *Economic Policy*, Vol. 34, No 98, pp. 315-363.

12.

Czupryn, R. and Wójtowicz, L. (2021), "The Influence of the Capital Market on Economic Growth in the USA", *Central European Review of Economics & Finance*, Vol. 35, No 4, pp. 5-14.

13.

The S&P 500 has grown by an impressive 568%, while the Euro Stoxx 50 has managed only a modest 115% over the same period.

14.

Bletzinger, T., Greif, W. and Schwaab, B. (2023), "The safe asset potential of EU-issued bonds", *VoxEU*, Centre for Economic Policy Research, 20 January.

15.

Iancu, A. et al. (2020), "Reserve Currencies in an Evolving International Monetary System", *Departmental Papers*, No 20/002, International Monetary Fund, 17 November.

16.

Goldberg, L., Krogstrup, S., Lipsky, J. and Rey, H. (2014), "Why is financial stability essential for key currencies in the international monetary system?", *VoxEU*, Centre for Economic Policy Research, 26 July.

17.

"Financial crises" refers to banking and/or currency crises. See Laeven, L. and Valencia, F. (2020), "Systemic Banking Crises Database II", *IMF Economic Review*, Vol. 68, pp. 307-361.

18.

ECB (2025), op. cit.